

SHIPBUILDING : MAJOR DOWNTURN AHEAD, BUT SOME REASONS FOR CHEER

A major new in-depth Report confirms the fears of many in the shipbuilding industry of a forthcoming major downturn in new vessel construction levels. The downturn is expected to hit particularly hard due to the high volumes of the current world orderbook, which currently fund newbuilding volumes not seen since the shipbuilding boom years of the mid-1970s.

Despite trade volume and shipping demand contraction in the near-term, with significant volumes of old tonnage scrapping and with long-term growth underlying several major vessel sectors, there is likely to be a return to the recent/current high volumes later in the decade, with subsequent years also set to enjoy activity levels higher than in the late-1990s. In the absence of large-scale capacity reductions however, the outlook for world newbuilding prices remains poor.

The following provides a summary of some of the findings of the major 211-page Report, entitled "World Shipbuilding : Prospects for Prices & Demand to 2015". The new Report has been prepared after full consideration of the implications of the IMO rules on single-hull tanker phase-out, and of the deteriorating world economic climate in the wake of the terrorist attacks in the USA and the subsequent US-led military action.

Future Newbuilding Demand to 2015

- The overall **world fleet** is expected to continue to expand throughout the study period - rising from the approximate 558m GT of 2001 to 688m GT in 2010, and 760m GT in 2015. Average annual development approximates 2.25%, with the average witnessed in the past half-decade approximating a little over 2.5%.
- Fleet growth is only part of the picture for the newbuilding outlook however – with many individual vessels types/sizes set to record extensive tonnage scrapping and the need for vessel replacement.

- This is most significant in the **tanker** sector, where the introduction of new stricter legislation covering tanker safety and anti-pollution measures is set to promote large-scale volumes of tanker obsolescence. The most significant volume of tonnage affected by the IMO regulations are large sized crude tankers over 200,000dwt, with an expected marked rise in near term scrapping to over 17m dwt in 2004. Total tanker newbuilding requirements in the forward study period overall approximate 265m dwt, with tonnage replacement accounting for 188m dwt or 71% of this total.
- Total bulk carrier scrapping is expected to be significant, but, given the recent increase in scrapping within the bulk sector, the volumes likely to be witnessed will approximate those of past years. For the fleet as a whole, the forward period is set to witness total newbuilding demand of approximately 119m GT, of which 82.6m GT (69%) will represent the replacement of old tonnage.
- Scrapping volumes of containerships are expected to rise – linked not only to vessel age but also to the replacement of tonnage by a new generation of larger ships – although volumes are not likely to become significant until the final years of the study period. For the forward study period as a whole, total newbuilding demand of approximately 78m GT is forecast.

Future Shipyard Activity to 2015

- For the period 2001-05, a total of 146m GT of **total newbuilding demand** is projected, with a further 156.5m GT projected for the 2006-10 period, and 143.6m GT for the 2011-15 period. These volumes are significantly higher than the forecasts made in previous published shipbuilding demand analyses – due primarily to the impact of the regulations on single-hulled tanker phase-out.
- For individual **vessel types**, tankers account for by far the largest volume of newbuilding activity in the study period, although significant volumes of bulk carrier and container ship tonnage are also set to be constructed. In the 2001-2005 period, tanker construction sums to 55.1m GT - this representing 38% of all newbuilding activity, with corresponding shares of over 24% for bulk carriers and 15.5% for container ships. Tanker significance is set to be less marked in the second half of the current decade due to the declining significance of tonnage replacement, with relative shares of 32%, 29% and 17.5% for the three principal vessel categories respectively. The final half-decade of the study period is set to see marginally lower newbuilding activity for bulkers and tankers, with some marginal increase for container ships. The relative shares thus approximate 28%, 26.5% and 19% respectively. For the forward period overall therefore, tankers are set to account for around 32.5% of the newbuilding aggregate, with 26.5% for bulk carriers and 17.5% for container ships.
- Significantly, the "Others" category is set to account for 21-26% of the aggregate throughout the forward period, with most significance expected in the latter stages. Within this overall class, gas/chemical carriers are set to record increasing newbuilding activity, with a relative significance level of around 7%. General cargo vessels are set to record less positive newbuilding volume development, especially later this decade, with an overall share of 3.5% of aggregate newbuilding tonnage (5.2% in 1996-2000).
- The aggregate average annual newbuilding demand is projected at 29.2m GT for the period to 2005, rising to 31.3m in the subsequent half-decade, and falling back to 28.7m GT in the final stage of the study period. The average for the whole forward

study period approximates 29.7m GT. These forward levels compare to the actual 2000 total of 31.4m GT, and the 27.1m GT average of the previous half-decade.

- In the Low Case, the aggregate shipbuilding demand volume is set to slump to an annual average of over 23.2m GT for 2001-05, before rising to 27.5m GT for the rest of the study period – slightly higher than the average for the past 5 years. In the High Case, the annual average volume is posited at 34m GT to 2005, and at almost 34.2m GT and 35.2m GT respectively in the following half-decades. These represent considerable growth from the levels recently witnessed (7-8m GT higher), and are each well in excess of the total volume recorded in the first half of the 1970s.
- The **total approximate cost** (at late-2001 prices) of the tanker newbuilding volumes required in the period to 2005 period alone approximates US\$47.1bn (US\$47,100m), including the current orderbook volume, with totals of US\$42.7bn and US\$34.4bn for the following half-decades respectively. Total tanker newbuildings in the study period thus approximate US\$124.2bn.
- In annual terms, the aggregate newbuilding deliveries of tankers, bulk carriers and container ships translate to averages of US\$15.6bn for 2001-05, US\$20.0bn for 2006-10, and US\$17.5bn for 2011-15. The average annual value of deliveries for these vessel categories in the study period overall therefore, approximates US\$17.6bn (US\$16.0/18.9bn for the Low/High Cases respectively).

Future Newbuilding Prices

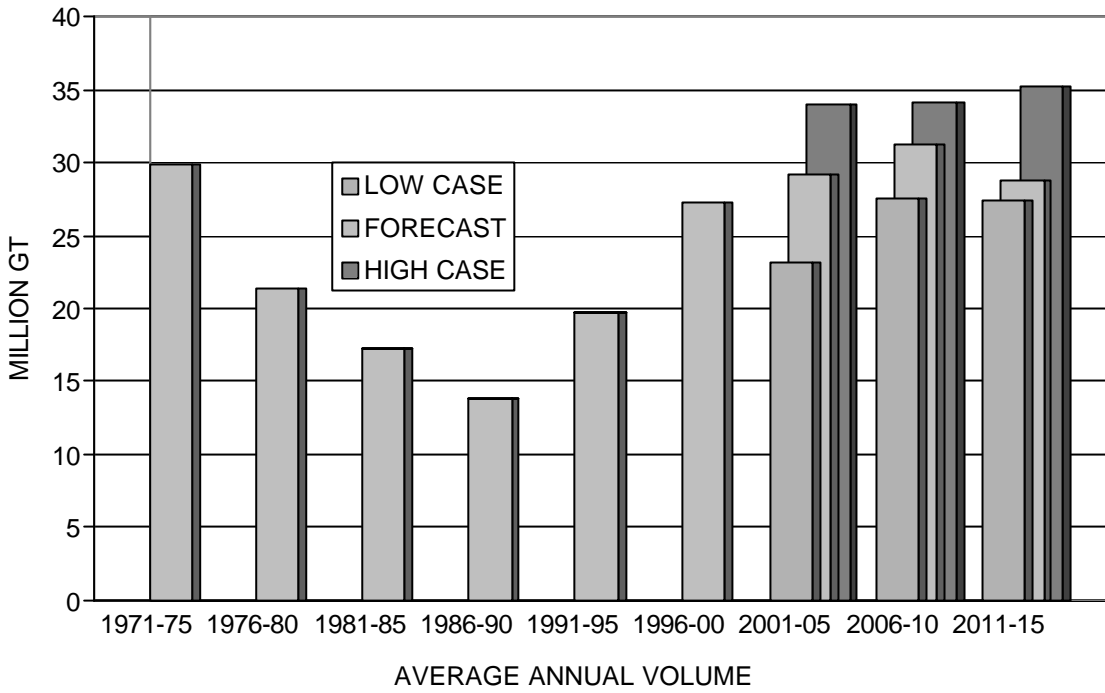
- In general, the outlook is one of :-
 - near-term price weakening as berth capacity becomes available in the wake of large-scale ordering in recent years;
 - price decline generally over the first half of the decade - due to lower activity volumes and some increases in capacity;
 - price strengthening in the late years of the decade due to higher activity volumes (assuming no further increases in capacity);
 - price expansion and then decline in the final years of the study period in line with output developments.
- An example is the expected price profile for tankers – with weakness over the first half of the current decade – due to the delivery of the large volumes ordered in recent years, the poor oil trade prospects suggested by the slowdown in economic growth worldwide, and the expansion of berth capacity. Renewed newbuilding ordering activity around mid-decade will see a strengthening in prices, although this is likely to be followed by shipbuilding market weakness by the end of the decade. In the final part of the study period, some expansion followed by decline is indicated, with the downside risk of this likely to be larger for VLCCs than for most other vessel types.
- In terms of actual average VLCC prices, after falling from the \$84.5m average of 1996 to \$66m in 1999, and subsequently rising to over \$75.5m in 2001, price decline to as low as \$63m is expected by mid-decade. Prices are then expected to increase to around \$73m part-way through the second half of the decade, before falling to around \$67m by 2010. Some renewed interest in newbuilding activity will see prices improve to around \$73m before weakening to \$65m by the end of the forward study period
- For the Handy-size bulk carrier sector, the expected price development is more linked to shipping demand factors than berth availability, although the underlying trend in

shipyard supply/demand will figure significantly in shaping the profile of price development. From the \$15m averaged over 2000-01, average prices will follow the general downward price profile, to around \$13m in the near-term, before some recovery to around \$15-16m midway through the second half of the decade. Some price weakness is expected ahead of firming to around \$18m in the latter stages of the study period, although final years' price decline will see the average approximate to \$15m by 2015.

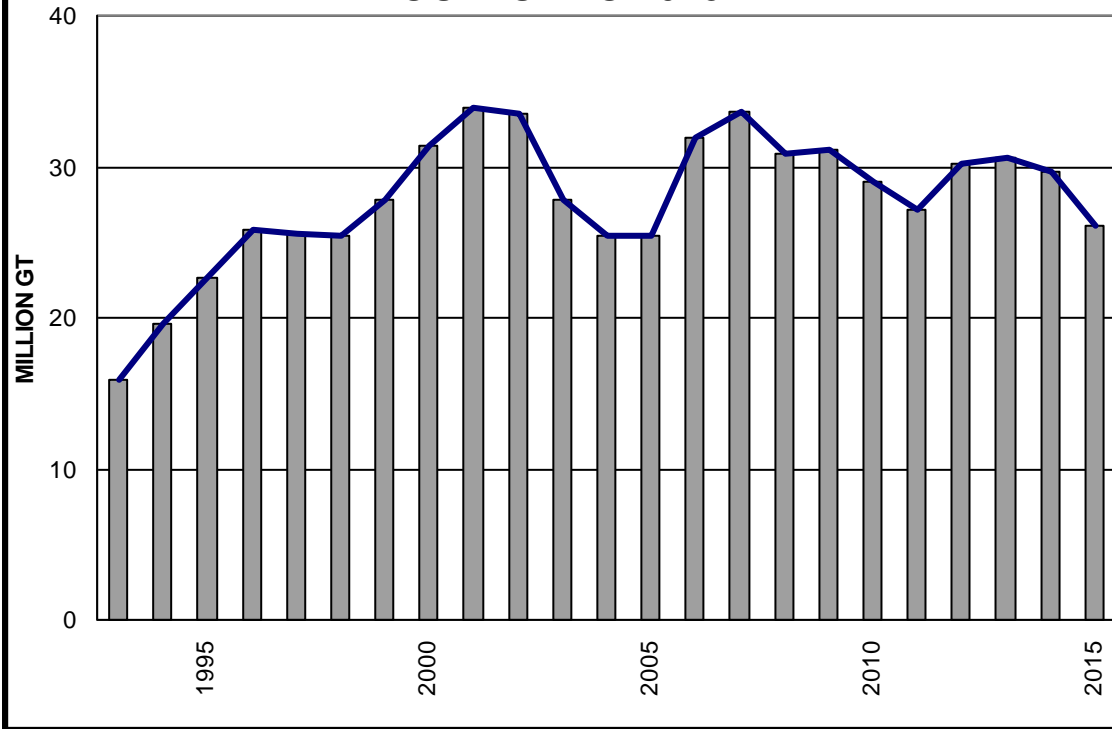
Summary : Main Implications

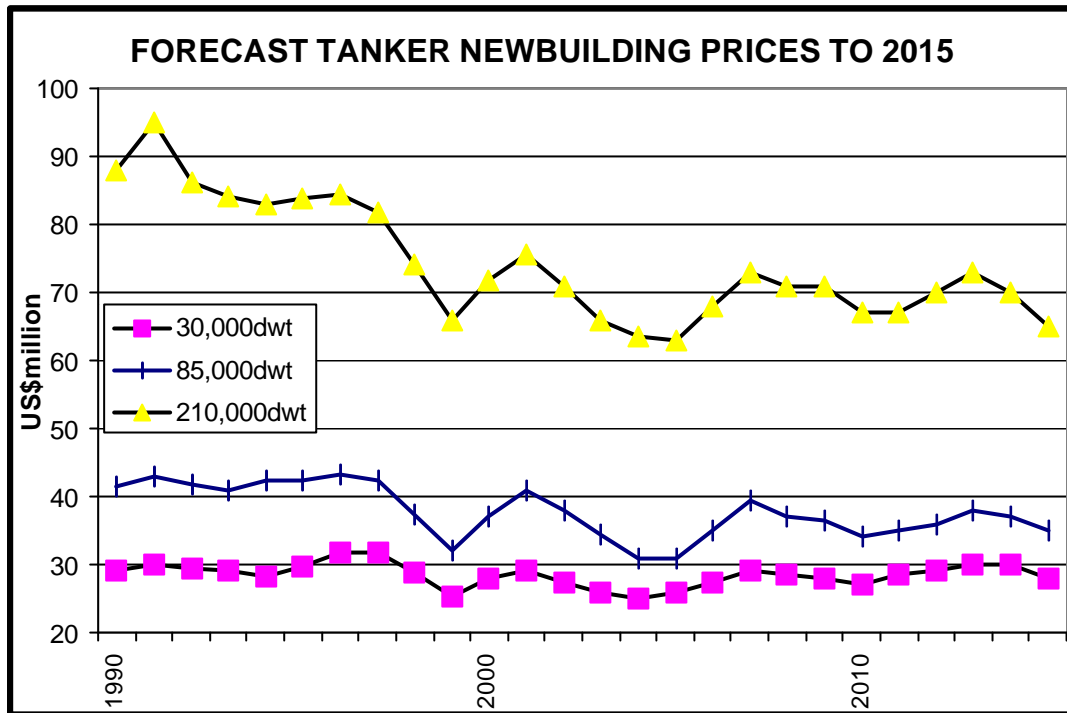
- Newbuilding prices are set to fall from the recent low levels, with average prices remaining relatively low throughout the majority of the study period;
- A high degree of short-term price volatility is expected to prevail for much of the study period, highlighting the continued importance of the timing of placing vessel newbuilding contracts;
- Shipbuilding activity volumes are set to remain high throughout the next 15 years, but the recent and on-going capacity increases in specific countries means continued high levels of competition between individual yards and shipbuilding countries;
- Different vessel sectors (by size/type) have different prospects for new vessel demand over the study period, leading to a differing 'mix' of vessel sectors within the newbuilding aggregate. It will therefore be increasingly vital for individual yards to concentrate their efforts in the expanding areas of newbuilding demand;
- Given the outlook for shipbuilding activity and prices, the forward study period will feature further major industry consolidation in the major shipbuilding countries. This will be associated with the continuing need for existing yards to cut costs to remain price competitive in the international environment;
- Given the outlook for shipbuilding supply/demand at the global level, the issue of subsidies and realistic market pricing will remain at the forefront of international industry debate throughout the forward study period;
- In the near-term, this will be concentrated largely on European allegations on Korean pricing of export contracts, and possible action via the WTO. In the longer-term, it is likely that continued expansion of shipbuilding output (and capacity) in China will attract considerable international scrutiny of pricing, real costs, and industry operation;
- In essence, the shipbuilding industry faces very difficult market conditions, where yard survival will be, in many cases, contingent on yard concentration on the vessel designs in most demand for ship owners. For ship-owners, whilst low prices are set to prevail throughout much of the forward period, the timing of the placing of newbuilding orders will remain crucial in determining vessel ownership and operation profitability.

SUMMARY : PROJECTED WORLD SHIPBUILDING DEMAND 1971-2015



FORECAST ANNUAL WORLD SHIPBUILDING OUTPUT TO 2015





In 211 pages, the highly detailed and extensive new Report contains analysis of all aspects of international shipbuilding industry development, including detailed forecasts of tonnage expansion and tonnage replacement for different vessel types/sizes, likely annual newbuilding volumes, and associated vessel prices. The Report is essential reading for all parties with an interest in the future development of the shipbuilding industry, newbuilding prices and the main shipping sectors.

**“WORLD SHIPBUILDING :
Prospects for Prices & Demand to 2015”**

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